

Message Text

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ORIGIN EUR-12

INFO OCT-01 ISO-00 EB-08 TRSE-00 SS-15 L-03 INR-10
NSC-05 CIAE-00 NSAE-00 OMB-01 SP-02 /057 R

DRAFTED BY EUR/SE:EJMARCO:CSR
APPROVED BY EUR/SE:RCEWING
EB/OMA:FORBORD
TREASURY:RBLAKE
EUR/RPE:GELBARD
-----083468 191804Z /47

P R 191707Z APR 78
FM SECSTATE WASHDC
TO AMEMBASSY ANKARA PRIORITY
INFO AMCONSUL ISTANBUL
AMEMBASSY PARIS

C O N F I D E N T I A L STATE 100183

E.O. 11652: GDS

TAGS:EFIN, TU

SUBJECT: TURKEY'S IMF STANDBY AGREEMENT

REF: ANKARA 2291

1. FOLLOWING, FOR YOUR INFORMATION ONLY, IS BASED ON
LETTER OF INTENT SIGNED BY TURKISH MINISTER OF FINANCE
MUEZZINOGLU MARCH 23. COPY OF LETTER OF INTENT POUCHED
EMBASSY. IMF STAFF REPORT TO EXECUTIVE BOARD FOR APRIL
24 DISCUSSION OF TURKEY WILL ALSO BE SENT WHEN AVAILABLE.

2. PERFORMANCE CRITERIA: THE AGREEMENT INDICATES THAT
DRAWINGS BY TURKEY BEYOND THE FIRST CREDIT TRANCHE POSI-
TION WILL BE SUSPENDED IF CERTAIN COMMITMENTS MADE BY GOT
IN THEIR PROPOSAL ARE NOT MET. THE COMMITMENTS INCLUDE A
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LIMIT ON NET DOMESTIC ASSETS (MEASURED BY THE AVERAGE OF
THE LAST DAY OF EACH MONTH IN THE THREE MONTH PERIOD) OF
THE CENTRAL BANK AT 224 BILLION TL FOR MAY-JULY 1978, 238
BILLION TL FOR AUGUST-OCTOBER, 252 BILLION TL IN NOVEMBER-
JANUARY, AND 267 BILLION TL FOR FEBRUARY-APRIL 1979. NET
CREDIT OF THE CENTRAL BANK TO THE PUBLIC SECTOR (SAME FOUR
TIME PERIODS AND METHOD OF CALCULATION) IS LIMITED TO 171,

181, 190 AND 197 BILLION TL RESPECTIVELY. REQUIREMENTS AND BANK LIQUIDITY RATIOS CANNOT BE REDUCED DURING THE FIRST YEAR OF THE AGREEMENT.

3. WITH THE EXCEPTION OF CENTRAL BANK ACTIVITIES, PUBLIC SECTOR AND STATE-GUARANTEED EXTERNAL DEBT DENOMINATED IN FOREIGN CURRENCY CANNOT BE INCREASED BY MORE THAN DOLS 750 MILLION FOR MATURITIES OF LESS THAN FIVE YEARS OR MORE THAN DOLS 1.5 BILLION FOR MATURITIES OF LESS THAN TEN YEARS IN THE FIRST YEAR UNDER THE AGREEMENT. NEW ARREARS IN PAYMENTS AND TRANSFERS FOR CURRENT TRANSACTIONS WILL NOT BE ALLOWED TO ACCUMULATE, AND A SCHEDULE ACCEPTABLE TO THE IMF FOR THE ELIMINATION OF CURRENT ARREARS WILL BE ESTABLISHED BY NOVEMBER 1, 1978.

4. DURING THE COURSE OF THE AGREEMENT, GOT WILL NOT INTRODUCE MULTIPLE CURRENCY PRACTICES, INTRODUCE NEW, OR INTENSIFY EXISTING, PAYMENTS OR TRANSFER RESTRICTIONS, ENTER INTO NEW BILATERAL PAYMENTS AGREEMENTS WITH FUND MEMBERS, OR INTRODUCE NEW OR INTENSIFY EXISTING RESTRICTIONS ON IMPORTS FOR BALANCE OF PAYMENTS REASONS. FINALLY, TURKEY WILL NOT MAKE REQUESTS FOR DRAWINGS AFTER NOVEMBER 17, 1978, UNTIL IT HAS REVIEWED ITS ECONOMIC PROGRAM (SCHEDULED FOR JANUARY 1979) AND REACHED AGREEMENT WITH THE FUND ON ANY NEW MEASURES THAT MAY BE NECESSARY(WITH FUTURE DRAWINGS CONDITIONED ON TURKISH OBSERVATION OF SUCH CONFIDENTIAL

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NEW UNDERSTANDINGS). AFTER APRIL 1979, DRAWINGS WILL BE CONDITIONED UPON NEW UNDERSTANDINGS WITH THE IMF ON POLICY INTENTIONS AND PERFORMANCE CRITERIA FOR THE REMAINDER OF THE AGREEMENT.

5. SCHEDULE OF DRAWINGS: FROM APRIL 1978 TO APRIL 1980, TURKEY WILL HAVE ACCESS TO 300 MILLION SDR. CUMULATIVE TOTALS FOR ACCESS ARE NOT IN EXCESS OF SDR 50 MILLION IN AUGUST 25, 1978; 90 MILLION ON NOVEMBER 25, 1978; 120 MILLION FEBRUARY 25, 1979; 145 MILLION FOR MAY 25, 1979; 185 MILLION ON AUGUST 25, 1979; 225 MILLION ON NOVEMBER 25, 1979; AND 265 MILLION ON FEBRUARY 25, 1980. SCHEDULE IS SUBJECT TO PERFORMANCE CRITERIA NOTED IN PARAS 2-4. OF THE CFF DRAWING, 37.75 MILLION SDR WILL BE AVAILABLE IMMEDIATELY. AS SOON AS THE NEW TURKISH QUOTA COMES INTO EFFECT, A MATTER OF WEEKS, THE GOVERNMENT WILL REQUEST A FURTHER DRAWING OF 37.75 MILLION SDR TO REESTABLISH THEIR DRAWING AT THE 75 PERCENT CEILING.

6. TURKISH STABILIZATION PROGRAM: THE GOT PROPOSAL CONTAINS A NUMBER OF TARGETS, GOALS AND ASSERTIONS, SUMMARIZED BELOW. THOSE CONSIDERED TO BE COMMITMENTS ARE IDENTIFIED.

TIFIED IN PARAS 2-4 ABOVE. THE STATED OBJECTIVE OF THE GOT STABILIZATION PROGRAM IS TO RESTORE BALANCE OF PAYMENTS EQUILIBRIUM, AND REDUCE INFLATION, WHILE ACHIEVING A SATISFACTORY GROWTH RATE AND REDUCING UNEMPLOYMENT.

THE GOT INTENDS TO REDUCE THE CURRENT ACCOUNT DEFICIT FROM 7 PERCENT OF GNP IN 1977 TO 4 PERCENT IN 1978 AND TO REDUCE INFLATION (AT AN ANNUAL RATE) FROM 36 PERCENT AT THE END OF 1977 TO 20 PERCENT BY EARLY 1979. GROSS PUBLIC SECTOR BORROWING (INCLUDING FOREIGN SOURCES) WILL BE REDUCED IN 1978 TO 75 BILLION TL, OF WHICH 38 BILLION WILL BE BY THE CENTRAL BANK (1977 FIGURES 93 AND 58). AGRICULTURAL SUPPORT PRICES (FOR EXPORT COMMODITIES) WILL BE CONSISTENT WITH WORLD PRICES. STATE ECONOMIC ENTERPRISES
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WILL BE REQUIRED TO COVER OPERATING COSTS AND PLANNED INVESTMENT NEEDS THROUGH PRICES AND FEES, TO REDUCE THE NEED FOR CENTRAL BANK BORROWING OR BUDGET SUBSIDIES.

7. THE 1978 BUDGET APPROPRIATIONS TOTAL 266 BILLION TL. INVESTMENTS TOTAL 63 BILLION, TRANSFERS 82 BILLION, CURRENT EXPENDITURES 121 BILLION. RESTRICTIVE POLICIES ON HIRING AND GOVERNMENT PROCUREMENT OF GOODS AND SERVICES WILL BE FOLLOWED.

8. TAX REFORM WILL BE UNDERTAKEN WITH THE INTENTION TO CORRECT FOR INFLATION, TO INCREASE REVENUES, TO SHIFT THE TAX BURDEN TO HIGHER INCOME GROUPS, AND TO PROVIDE MORE EFFICIENT ADMINISTRATION. 1978 REVENUE SHOULD INCREASE 20 BILLION TL OVER 1977. ADDITIONAL APPROPRIATIONS NOT COVERED BY NEW REVENUES WILL BE RESISTED, AS WILL GOVERNMENT BORROWING FROM THE CENTRAL BANK.

9. STATE ECONOMIC ENTERPRISES INVESTMENTS WILL BE LIMITED TO 60 BILLION TL. PRIORITY WILL BE GIVEN TO PROJECTS IN ENERGY AND EXPORT PROMOTION AND TO PROJECTS NEARING COMPLETION.

10. A MONETARY PROGRAM INCLUDES THE LIMITS ON CENTRAL BANK ASSETS AND CREDIT TO THE PUBLIC SECTOR, THE HIGHER RESERVE REQUIREMENT AND BANK LIQUIDITY RATIOS PREVIOUSLY ESTABLISHED, ADJUSTMENTS ON INTEREST REBATES TO REDUCE THE BUDGETARY ALLOCATION, AND HIGHER INTEREST RATES (ANKARA 1511).

11. IN ADDITION TO THE ADJUSTMENT OF EXPORT REBATES (ANKARA 1808) THE LIRA WILL SOON BE LINKED TO A BASKET OF CURRENCIES FOR EXTERNAL VALUATION PURPOSES, TO ELIMINATE
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CROSS RATE DIFFERENTIALS.

12. THE GOVERNMENT PROMISES TO PRESENT A SCHEDULE SATISFACTORY TO THE IMF FOR THE ELIMINATION OF ARREARS BY NOVEMBER 1, AND TO NOT ALLOW NEW ARREARAGES TO DEVELOP. IT WILL MINIMIZE THE CONTRACTING OF SHORT TERM DEBT AND

LIMIT NEW PUBLIC SECTOR OR GUARANTEED DEBT AS NOTED IN PARA 2 ABOVE.

13. OTHER MEASURES ENUMERATED IN GOT PROPOSAL INCLUDE ABOLISHMENT OF OPTION FOR CLD HOLDERS TO USE 50 PERCENT OF DEPOSITS FOR IMPORTS, STAMP DUTY INCREASE, IMPORT DEPOSIT INCREASE, SHIFT OF GOODS FROM LICENSING LIST I TO II, LINKAGE OF EXPORT RECEIPTS TO IMPORT REQUIREMENTS UP TO 25 PERCENT, AND TOURISM MEASURES.

14. FINALLY GOT STATES IT BELIEVES MEASURES ARE ADEQUATE FOR PROGRAM, BUT QUOTE: WILL TAKE ANY FURTHER MEASURES THAT MAY BECOME APPROPRIATE FOR THIS PURPOSE END QUOTE. THE PROGRAM WILL BE REVIEWED IN JANUARY 1979 AND AGREEMENTS WITH IMF FOR SECOND YEAR AGREEMENT WILL BE REACHED WITH FUND BY MAY 15, 1979. CHRISTOPHER

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, LOANS, BANKS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 apr 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE100183
Document Source: CORE
Document Unique ID: 00
Drafter: EJMARCOTT:CSR
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780167-1162
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780439/aaaabgpf.tel
Line Count: 198
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 0d4901ab-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: ONLY
Reference: 78 ANKARA 2291
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2913288
Secure: OPEN
Status: NATIVE
Subject: TURKEY'S IMF STANDBY AGREEMENT
TAGS: EFIN, TU
To: ANKARA
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/0d4901ab-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014